



**REPORT OF THE AUDIT DEPARTMENT**  
**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 2003-3-E**  
**DUKE POWER COMPANY**

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## **REPORT OF THE AUDIT DEPARTMENT**

**DOCKET NO. 2003-3-E**

**DUKE POWER COMPANY**

### **ANALYSIS**

The Audit Department Staff has made a study of the books and records of Duke Power Company, Charlotte, North Carolina, relative to the Commission's requirement under Docket No. 2003-3-E, that periodic hearings be conducted before the Commission concerning the Adjustment of Base Rates for Fuel Costs.

### **CURRENT REVIEW PERIOD**

The current investigation of Duke Power Company's Retail Fuel Adjustment Clause covers the period June 2002 through May 2003. Since the fuel hearing is scheduled for May 2003, Staff's audit covered through the month of March 2003, with the months of April and May 2003 estimated. In the last fuel hearing, fuel figures for April and May 2002 were estimated, therefore, Staff reviewed Duke's books and records for the period April 1, 2002 through March 31, 2003. The under-recovery amount for April 2003 and the under-recovery amount for May 2003 were estimated for the purpose of adjusting base rates effective June 1, 2003. The April and May 2003 estimates will be trued-up at Duke's next hearing after the costs are examined.

### **SCOPE OF STUDY**

The Commission's Audit Department's examination consisted of the following:

1. Analysis of Fuel Stock - Account # 151

2. Sample of Receipts to the Fuel Stock Account --Account #151
3. Verification of Charges to Nuclear Fuel Expense --- Account # 518
4. Analysis of Purchased Power and Interchange (Net)
5. Verification of KWH Sales
6. Comparison of Coal Costs
7. An Analysis of Spot Coal Purchasing Procedures
8. Recomputation of Fuel Costs and Verification of Deferred Fuel Costs
9. Recomputation of True-up for (Over) Under-Recovered Fuel Costs

#### **ANALYSIS OF FUEL STOCK ACCOUNT - ACCOUNT # 151**

Staff's analysis of the Fuel Stock Account consisted of tracing receipts to and from the General Ledger (debits and credits), reviewing monthly fuel charges originating in fuel accounting and insuring that only proper charges are entered in the Company's computation of fuel costs for purposes of adjusting base rates for fuel costs.

#### **SAMPLE OF RECEIPTS TO THE FUEL STOCK ACCOUNT-- ACCOUNT #151**

Staff's sample of receipts to the Fuel Stock Account consisted of randomly selecting transactions, tracing each of these transactions to a waybill and a purchase order for documentation purposes, and recalculating the transactions to insure mathematical correctness.

#### **VERIFICATION OF NUCLEAR FUEL EXPENSE - ACCOUNT # 518**

The Staff traced the expense amounts to the General Ledger. The expenses were also traced to filings to the Commission from the Company.

#### **ANALYSIS OF PURCHASED AND INTERCHANGE POWER (NET)**

Staff performed an examination of the Company's purchased power and interchange

(Net) amount used in the Fuel Adjustment Clause.

Staff obtained the details of purchases and sales made by Duke from and to other electric utilities. Staff verified all individual transactions of purchased and interchanged power to source documents. Staff verified amounts that are being used in computing total fuel costs for each month. These details allowed the Staff to identify fuel costs that were being passed through the clause in computing the factor above or below the base for each period.

### **VERIFICATION OF KWH SALES**

The Audit Department Staff reconciled the KWH sales as reported to the Commission through monthly fuel adjustment filings to the Company's monthly Financial and Operating Reports.

### **COMPARISON OF COAL COSTS**

Staff prepared exhibits from Duke's books and records reflecting coal costs during the review period. Specifically, these exhibits are as follows:

#### **Exhibit A - Coal Cost Statistics**

#### **Exhibit B - Received Coal-Cost Per Ton Comparison**

With reference to Exhibit A, Coal Cost Statistics, Staff has shown a detailed analysis of spot and contract coal for the twelve (12) - month period April 2002 through March 2003. The detail gives emphasis to tons purchased, percentage of tons purchased, cost per ton delivered, total delivered cost, and cost per MBTU.

In Exhibit B, Received Coal-Cost Per Ton Comparison, Staff reflects the overall cost per ton of coal by month for the three major electric utilities regulated by this Commission.

## **ANALYSIS OF SPOT COAL PURCHASING PROCEDURES**

The Audit Staff examined the procedure followed by the Company's Fuel Purchasing Department for obtaining and accepting offers on spot coal. To achieve this, Staff chose two months of the audit period that had received large amounts of spot coal. Staff examined spot coal proposals received in the months of December 2002 and January 2003.

The Fuel Purchasing Department maintains a list of coal vendors from whom proposals are received monthly. These coal vendors send their proposals to Duke via Spot Coal Sales Proposal Data Sheets, with each proposal or offer on a separate sheet.

If the Company decides to purchase spot coal in a given month, then the proposals are evaluated. For evaluation purposes, the spot coal sales proposals are compiled on an Evaluation of Spot Bids computer run and are ranked by the cost per MBTU. The purchasing agents consider at least three factors when they agree to the spot coal offers: (a) the price per ton (including freight), (b) the BTU, ash, and sulfur content of the coal offered, and (c) the past experience with the supplier and the coal obtained from the producer. The Company's purchasing agents determine the current market price for spot coal prior to negotiating with the coal vendors. In this way, the agents determine the limits they should stay within when bargaining for coal. The agents bargain over the price of the coal, and either accept (the original offer or a counter offer) or reject the coal vendor's offer.

Upon acceptance of an offer, the Fuel Purchasing Department prepares a purchase order, a copy of which is mailed to the coal vendor. When the coal is received at the plant, the Company analyzes the coal for BTU, ash, and sulfur content and prepares a coal analysis report which is sent to the Fuel Purchasing Department. The Fuel Purchasing Department determines

the appropriate premium or penalty on the coal, and the results are forwarded to the Company's Accounting Section, which in turn, adds a premium or assesses a penalty to the total amount due to the coal vendor.

The Fuel Purchasing Department closely monitors the quality of coal shipped by the various producers. If a certain producer renders poor performance, the purchasing agent records it and considers this when analyzing any future offers from the supplier.

As mentioned previously, Staff examined spot coal offers received for the months of December 2002 and January 2003. Staff obtained the Company's Evaluation of Spot Bids computer runs for the aforementioned months. The Evaluation of Spot Bids run is listed alphabetically by plant, with each plant's spot coal offers ranked by cost per MBTU. Also included on the Evaluation of Spot Bids run is the name of the coal company, the name of the producer, number of tons offered, coal specifications, the number of tons purchased, the plant to which the coal was shipped, or a reason for rejecting the offer.

During December 2002, 20 offers were submitted (per offer sheets) and Duke accepted 21 orders (several plant orders per offer sheet). During January 2003, 29 offers were submitted (per offer sheets) and Duke accepted 10 orders.

#### **RECOMPUTATION OF TRUE-UP FOR (OVER) UNDER-RECOVERED FUEL COSTS**

Staff analyzed the cumulative under-recovery of fuel costs that the Company had incurred for the period April 1, 2002 through March 31, 2003 totaling \$1,166,680. Staff added the projected under-recovery of \$871,022 for the month of April 2003 and the projected under-recovery of \$5,494,525 for May 2003 to arrive at a cumulative under-recovery of \$7,532,227. The Company's cumulative under-recovery as of March 2003 and cumulative

under-recovery as of May 2003 differs from Staff's. Staff's Purchased Power figures for most of the review period differ from the Company's figures. The Company's and the Staff's Purchased Power figures are the same for November and December 2002, when compared on a rounded basis. Staff's figures, per Staff's report, reflect calculation adjustments made to Purchased Power Costs for the aforementioned months, based on Staff's review of Purchased Power system operations reports and invoices. Staff's Exhibit G, S.C. Retail Comparison of Fuel Revenues and Expenses, which consist of four pages, provides details of Staff's cumulative under-recovery balance.

As stated in Duke Power Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission. Accordingly, the Commission should consider the under-recovery of \$7,532,227 along with the anticipated fuel costs for the period June 1, 2003 to May 31, 2004, for the purpose of determining the base cost of fuel in rates effective June 1, 2003.

This under-recovery figure of \$7,532,227 was provided to the Commission's Utilities Department.

## **RESULTS OF EXAMINATION**

Based on the Audit Staff's examination of Duke Power Company's books and records, and the utilization of the fuel cost-recovery mechanism as directed by this Commission, the Audit Staff is of the opinion that the Company has complied with the directives (per the Fuel Adjustment Clause) of the Commission.



## **EXHIBITS**

Exhibits relative to this report are identified as follows:

### **EXHIBIT A: COAL COST STATISTICS**

In Exhibit A, Coal Cost Statistics, Staff compares spot, contract and total coal received for the months of April 2002 through March 2003. The comparison is made in the following areas:

1. Tons Purchased
2. Percentage of Total Tons Purchased
3. Received Cost Per Ton
4. Total Received Cost
5. Cost Per MBTU

### **EXHIBIT B: RECEIVED COAL-COST PER TON COMPARISON**

In Exhibit B, Staff has shown for comparison purposes, the freight cost per ton, mine cost per ton, the total cost per ton, and the cost per MBTU of received coal for Duke Power Company, Carolina Power & Light Company, and South Carolina Electric & Gas Company. The costs per ton shown for the period April 2002 through March 2003 included both spot and contract purchases, and were extracted from required filings for Carolina Power & Light Company, South Carolina Electric & Gas Company, and from Duke Power Company.

### **EXHIBIT C: DETAIL OF NUCLEAR COST**

In Exhibit C, Staff has shown in detail, the two components in total nuclear costs. These components are as follows:

1. Burn-up Cost

## 2. Disposal Cost

### **EXHIBIT D: TOTAL BURNED COST (FOSSIL AND NUCLEAR)**

This exhibit reflects the dollar amounts of burned costs, including emission allowance expenses, and the percentage of the Total Burned Costs for fossil and nuclear fuel by months from April 2002 through March 2003.

### **EXHIBIT E: COST OF FUEL**

In Exhibit E, Staff has computed the total fuel cost applicable to the factor computation. There are three (3) components used in arriving at this cost. Those components are as follows:

1. Cost of Fuel Burned...This amount is the burned cost of all fossil and nuclear fuel during the period. A detailed breakdown between coal (including emission allowance expenses), oil, gas and nuclear fuel can be seen in Exhibit D.

2. Purchase and Interchange Power Fuel Cost... This amount is the monthly KWH's delivered to or received by one electric utility system (and/or power marketer) from another.

3. Fuel Cost Recovered through Intersystem Sales... This amount is the fuel-related cost on KWH's sold during the period to other electric utilities and /or power marketers.

Total fuel cost applicable to the factor is computed by adding the cost of fuel burned to purchased power and interchange power fuel cost. This amount is then reduced by fuel associated with intersystem sales.

### **EXHIBIT F: FACTOR COMPUTATION**

Staff has computed the Fuel Cost Adjustment Factor by month beginning with April 2002

and going through March 2003. In computing this factor, total fuel cost applicable to the Fuel Adjustment Clause is divided by total system sales, excluding intersystem sales. This results in fuel cost per KWH. The fuel cost per KWH is then compared to the base cost per KWH as ordered by the Commission. This variance is reflected as the monthly fuel cost adjustment factor.

#### **EXHIBIT G: S.C. RETAIL COMPARISON OF FUEL REVENUES AND EXPENSES**

Shown in this exhibit is the computation of the cumulative under-recovery at May 31, 2003.

**DUKE POWER COMPANY  
COAL COST STATISTICS  
APRIL 2002 - MARCH 2003**

AUDIT EXHIBIT A

**SPOT**

<u>MONTH</u>	<u>TONS RECEIVED</u>	<u>PERCENTAGE</u>	<u>COST/TON RECEIVED</u>	<u>TOTAL RECEIVED COST</u>	<u>\$/MBTU</u>
	TONS	%	\$	\$	\$
Apr-02	92,029.85	7.72%	59.69	5,493,241.21	2.1552
May-02	116,413.65	9.40%	44.23	5,148,621.54	1.7627
Jun-02	120,638.20	9.45%	46.47	5,606,533.36	1.8068
Jul-02	104,181.55	9.82%	44.15	4,599,861.48	1.7918
Aug-02	249,858.00	17.35%	42.80	10,693,519.64	1.6924
Sep-02	100,627.60	9.28%	40.74	4,099,484.15	1.6861
Oct-02	220,357.15	16.78%	43.62	9,611,723.28	1.7516
Nov-02	261,267.50	20.23%	35.43	9,256,598.94	1.4632
Dec-02	342,146.55	27.15%	38.33	13,115,949.99	1.5536
Jan-03	357,567.60	23.63%	48.54	17,357,512.34	1.9374
Feb-03	213,012.60	16.08%	43.52	9,270,954.10	1.7601
Mar-03	385,546.80	22.58%	43.22	16,693,761.56	1.7477
Totals (4/02- 3/03)	2,563,647.05			110,947,761.59	

**CONTRACT**

<u>MONTH</u>	<u>TONS RECEIVED</u>	<u>PERCENTAGE</u>	<u>COST/TON RECEIVED</u>	<u>TOTAL RECEIVED COST</u>	<u>\$/MBTU</u>
	TONS	%	\$	\$	\$
Apr-02	1,100,109.50	92.28%	40.56	44,617,305.23	1.4427
May-02	1,121,676.65	90.60%	40.85	45,823,491.40	1.6763
Jun-02	1,155,994.06	90.55%	41.01	47,406,930.15	1.6670
Jul-02	956,778.90	90.18%	40.99	39,222,604.29	1.6660
Aug-02	1,190,521.50	82.65%	41.38	49,261,051.90	1.6597
Sep-02	983,315.45	90.72%	40.44	39,768,411.73	1.6336
Oct-02	1,092,961.75	83.22%	41.39	45,235,216.47	1.6791
Nov-02	1,030,411.45	79.77%	40.05	41,264,200.72	1.6360
Dec-02	917,923.60	72.85%	40.00	36,719,458.16	1.6408
Jan-03	1,155,439.90	76.37%	40.45	46,740,915.56	1.6444
Feb-03	1,111,378.80	83.92%	30.79	34,218,564.42	1.2638
Mar-03	1,322,102.65	77.42%	41.25	54,534,381.17	1.6792
Totals (4/02- 3/03)	13,138,614.21			524,812,531.20	

**COMBINED**

<u>MONTH</u>	<u>TONS RECEIVED</u>	<u>PERCENTAGE</u>	<u>COST/TON RECEIVED</u>	<u>TOTAL RECEIVED COST</u>	<u>\$/MBTU</u>
	TONS	%	\$	\$	\$
Apr-02	1,192,139.35	100.00%	42.04	50,110,546.44	1.7119
May-02	1,238,090.30	100.00%	41.17	50,972,112.94	1.6856
Jun-02	1,276,632.26	100.00%	41.52	53,013,463.51	1.6837
Jul-02	1,060,960.45	100.00%	41.31	43,822,465.77	1.6784
Aug-02	1,440,379.50	100.00%	41.62	59,954,571.54	1.6653
Sep-02	1,083,943.05	100.00%	40.47	43,867,895.88	1.6349
Oct-02	1,313,318.90	100.00%	41.77	54,846,939.75	1.6915
Nov-02	1,291,678.95	100.00%	39.11	50,520,799.66	1.5977
Dec-02	1,260,070.15	100.00%	39.55	49,835,408.15	1.6169
Jan-03	1,513,007.50	100.00%	42.36	64,098,427.90	1.7141
Feb-03	1,324,391.40	100.00%	32.84	43,489,518.52	1.3458
Mar-03	1,707,649.45	100.00%	41.71	71,228,142.73	1.6955
Totals (4/02- 3/03)	15,702,261.26			635,760,292.79	

DUKE POWER COMPANY  
RECEIVED COAL-COST PER TON COMPARISON  
APRIL 2002 - MARCH 2003

<u>DUKE POWER COMPANY</u>				
	<u>INVOICE</u>	<u>FREIGHT</u>	<u>TOTAL</u>	
	<u>COST PER</u>	<u>COST PER</u>	<u>COST PER</u>	<u>COST PER</u>
<u>MONTH</u>	<u>TON</u>	<u>TON</u>	<u>TON</u>	<u>MBTU</u>
	\$	\$	\$	\$
Apr-02	26.95	15.09	42.04	1.7119
May-02	26.01	15.16	41.17	1.6856
Jun-02	26.34	15.18	41.52	1.6837
Jul-02	25.78	15.53	41.31	1.6784
Aug-02	26.18	15.44	41.62	1.6653
Sep-02	25.23	15.24	40.47	1.6349
Oct-02	26.01	15.76	41.77	1.6915
Nov-02	23.87	15.24	39.11	1.5977
Dec-02	24.31	15.24	39.55	1.6169
Jan-03	26.77	15.59	42.36	1.7141
Feb-03	17.40	15.44	32.84	1.3458
Mar-03	25.96	15.75	41.71	1.6955

<u>CAROLINA POWER &amp; LIGHT COMPANY</u>				
	<u>INVOICE</u>	<u>FREIGHT</u>	<u>TOTAL</u>	
	<u>COST PER</u>	<u>COST PER</u>	<u>COST PER</u>	<u>COST PER</u>
<u>MONTH</u>	<u>TON</u>	<u>TON</u>	<u>TON</u>	<u>MBTU</u>
	\$	\$	\$	\$
Apr-02	33.97	15.56	49.53	1.9984
May-02	33.50	15.61	49.11	1.9914
Jun-02	33.21	15.20	48.41	1.9294
Jul-02	34.35	15.17	49.52	1.9871
Aug-02	34.00	15.58	49.58	1.9834
Sep-02	31.73	15.71	47.44	1.9058
Oct-02	35.66	15.46	51.12	2.0534
Nov-02	33.11	15.74	48.85	1.9617
Dec-02	33.11	15.62	48.73	1.9725
Jan-03	31.94	16.41	48.35	1.9453
Feb-03	33.25	16.23	49.48	1.9906
Mar-03	31.81	16.40	48.21	1.9337

<u>SOUTH CAROLINA ELECTRIC &amp; GAS COMPANY</u>				
	<u>INVOICE</u>	<u>FREIGHT</u>	<u>TOTAL</u>	
	<u>COST PER</u>	<u>COST PER</u>	<u>COST PER</u>	<u>COST PER</u>
<u>MONTH</u>	<u>TON</u>	<u>TON</u>	<u>TON</u>	<u>MBTU</u>
	\$	\$	\$	\$
Apr-02	30.24	12.00	42.24	1.6563
May-02	29.76	12.38	42.14	1.6560
Jun-02	29.90	12.26	42.16	1.6526
Jul-02	30.28	12.38	42.66	1.6715
Aug-02	30.63	12.12	42.75	1.6727
Sep-02	31.25	11.89	43.14	1.6933
Oct-02	30.74	13.04	43.78	1.7186
Nov-02	31.03	11.75	42.78	1.6750
Dec-02	31.35	11.78	43.13	1.6922
Jan-03	30.21	12.32	42.53	1.6716
Feb-03	30.60	11.50	42.10	1.6580
Mar-03	30.52	11.64	42.16	1.6419

AUDIT EXHIBIT C

DUKE POWER COMPANY  
DETAIL OF NUCLEAR COST  
APRIL 2002 - MARCH 2003

MONTH	BURN-UP COST	DISPOSAL COST	TOTAL NUCLEAR COST
	\$	\$	\$
Apr-02	9,703,050	2,899,335	12,602,385
May-02	11,420,610	3,527,700	14,948,310
Jun-02	11,438,664	3,450,524	14,889,188
Jul-02	12,036,184	3,470,748	15,506,932
Aug-02	11,428,791	3,363,829	14,792,620
Sep-02	9,650,230	2,958,229	12,608,459
Oct-02	10,321,541	2,861,997	13,183,538
Nov-02	9,960,378	2,955,644	12,916,022
Dec-02	11,542,730	3,592,523	15,135,253
Jan-03	11,455,515	3,574,613	15,030,128
Feb-03	10,870,323	3,264,046	14,134,369
Mar-03	11,552,442	3,483,902	15,036,344
Total	131,380,458	39,403,090	170,783,548

**AUDIT EXHIBIT D**

**DUKE POWER COMPANY  
TOTAL BURNED COST (FOSSIL AND NUCLEAR)  
APRIL 2002 - MARCH 2003**

<u>MONTH</u>	<u>COAL (1)</u>	<u>PERCENT</u>	<u>OIL</u>	<u>PERCENT</u>	<u>GAS</u>	<u>PERCENT</u>	<u>NUCLEAR</u>	<u>PERCENT</u>	<u>TOTAL BURNED COST</u>
	\$	%	\$	%	\$	%	\$	%	\$
Apr-02	51,038,204	78.11%	1,353,327	2.07%	344,475	0.53%	12,602,385	19.29%	65,338,391
May-02	50,693,981	76.66%	639,440	0.97%	(158,061)	-0.24%	14,948,310	22.61%	66,123,670
Jun-02	63,561,238	79.56%	871,619	1.09%	564,204	0.71%	14,889,188	18.64%	79,886,249
Jul-02	72,113,088	81.08%	548,390	0.62%	770,085	0.87%	15,506,932	17.43%	88,938,495
Aug-02	68,598,523	81.45%	227,631	0.27%	600,177	0.71%	14,792,620	17.57%	84,218,951
Sep-02	66,741,676	83.84%	322,819	0.41%	(70,566)	-0.09%	12,608,459	15.84%	79,602,388
Oct-02	63,954,043	81.94%	905,623	1.16%	9,670	0.01%	13,183,538	16.89%	78,052,874
Nov-02	53,888,687	80.20%	387,864	0.58%	1,577	0.00%	12,916,022	19.22%	67,194,150
Dec-02	51,619,437	75.64%	831,658	1.22%	653,844	0.96%	15,135,253	22.18%	68,240,192
Jan-03	63,819,327	77.51%	2,837,459	3.45%	648,642	0.79%	15,030,128	18.25%	82,335,556
Feb-03	55,616,554	75.50%	2,985,401	4.05%	928,985	1.26%	14,134,369	19.19%	73,665,309
Mar-03	57,529,146	78.29%	748,436	1.02%	171,469	0.23%	15,036,344	20.46%	73,485,395

(1) Includes Emission Allowance Expense

## AUDIT EXHIBIT E

DUKE POWER COMPANY  
COST OF FUEL  
APRIL 2002 - MARCH 2003

<u>MONTH</u>	<u>TOTAL COST OF FUEL BURNED</u>	<u>PURCHASED AND INTERCHANGE POWER FUEL COST</u>	<u>FUEL COST RECOVERED INTERSYSTEM SALES</u>	<u>TOTAL FUEL COST</u>
	\$	\$	\$	\$
Apr-02	65,338,391	3,380,048	(9,639,864)	59,078,575
May-02	66,123,670	1,915,627	(7,699,789)	60,339,508
Jun-02	79,886,249	6,554,314	(9,650,364)	76,790,199
Jul-02	88,938,495	7,345,653	(9,974,156)	86,309,992
Aug-02	84,218,951	10,274,882	(5,677,309)	88,816,524
Sep-02	79,602,388	3,629,670	(14,550,236)	68,681,822
Oct-02	78,052,874	3,075,128	(17,138,120)	63,989,882
Nov-02	67,194,150	548,610	(11,668,616)	56,074,144
Dec-02	68,240,192	1,578,841	(17,250,954)	52,568,079
Jan-03	82,335,556	3,610,221	(19,765,711)	66,180,066
Feb-03	73,665,309	2,708,786	(24,872,554)	51,501,541
Mar-03	73,485,395	720,207	(21,780,045)	52,425,557
Total	907,081,620	45,341,987	(169,667,718)	782,755,889



## AUDIT EXHIBIT F

DUKE POWER COMPANY  
FACTOR COMPUTATION  
APRIL 2002 - MARCH 2003

<u>MONTH</u>	<u>TOTAL FUEL COSTS</u>	<u>TOTAL SYSTEM SALES EXCLUDING INTERSYSTEM SALES</u>	<u>FUEL COST PER KWH SALES</u>	<u>BASE COST PER KWH INCLUDED IN RATES</u>	<u>FUEL ADJUSTMENTS PER KWH</u>
	<u>\$</u>	<u>KWH</u>	<u>\$/KWH</u>	<u>\$/KWH</u>	<u>\$/KWH</u>
Apr-02	59,078,575	5,670,816,000	0.010418	0.009500	0.000918
May-02	60,339,508	6,099,610,000	0.009892	0.009500	0.000392
Jun-02	76,790,199	6,432,593,000	0.011938	0.009500	0.002438
Jul-02	86,309,992	7,091,147,000	0.012172	0.009500	0.002672
Aug-02	88,816,524	7,776,761,000	0.011421	0.009500	0.001921
Sep-02	68,681,822	7,014,782,000	0.009791	0.009500	0.000291
Oct-02	63,989,882	5,973,700,000	0.010712	0.009500	0.001212
Nov-02	56,074,144	5,693,145,000	0.009849	0.009500	0.000349
Dec-02	52,568,079	6,245,858,000	0.008416	0.009500	(0.001084)
Jan-03	66,180,066	6,422,578,000	0.010304	0.009500	0.000804
Feb-03	51,501,541	6,558,869,000	0.007852	0.009500	(0.001648)
Mar-03	52,425,557	5,905,214,000	0.008878	0.009500	(0.000622)

Duke Power Company  
S.C. Retail Comparison of Fuel Revenues & Expenses  
April 2002 - May 2003

Description	ACTUAL				
	Apr-02	May-02	Jun-02	Jul-02	Sep-02
Fossil Fuel	52,736,006	51,175,360	64,997,061	73,431,563	66,993,929
Nuclear Fuel	12,602,385	14,948,310	14,889,188	15,506,932	12,608,459
Purchased Power (1)	3,380,048	1,915,627	6,554,314	7,345,653	3,629,670
Subtotal	68,718,439	68,039,297	86,440,563	96,284,148	83,232,058
Less: Fuel Cost Recovered through Intersystem Sales	9,639,864	7,699,789	9,650,364	9,974,156	14,550,236
Fuel Cost	59,078,575	60,339,508	76,790,199	86,309,992	68,681,822
Total System KWH Sales Excluding Intersystem Sales (000's)	5,670,816	6,099,610	6,432,593	7,091,147	7,014,782
\$/KWH Sales	0.010418	0.009892	0.011938	0.012172	0.011421
Less: Base Sales (\$/KWH)	0.009500	0.009500	0.009500	0.009500	0.009500
Fuel Adjustment Per KWH	0.000918	0.000392	0.002438	0.002672	0.000291
S.C. KWH Sales (000's)	1,610,498	1,701,386	1,841,386	1,945,785	1,958,095
(Over)/Under Recovery	1,478,437	666,943	4,489,299	5,199,138	4,131,737
Cumulative (Over)/Under Recovery-March 2002	(7,446,417)				569,806
Cumulative (Over)/Under Recovery this Period	(5,967,980)	(5,301,037)	(811,738)	4,387,400	8,519,136
					9,088,943

(Explanation for Note (1) is on Page 3 of 4.)

Duke Power Company  
S.C. Retail Comparison of Fuel Revenues & Expenses  
April 2002 - May 2003

Description	ACTUAL					ESTIMATED				
	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03		
Fossil Fuel	64,869,336	54,278,128	53,104,939	67,305,428	59,530,940	58,449,051	44,012,000	61,703,000		
Nuclear Fuel	13,183,538	12,916,022	15,135,253	15,030,128	14,134,369	15,036,344	14,416,000	13,062,000		
Purchased Power (1)	3,075,128	548,610	1,578,841	3,610,221	2,708,786	720,207	3,505,000	3,505,000		
Subtotal	81,128,002	67,742,760	69,819,033	85,945,777	76,374,095	74,205,602	61,933,000	78,270,000		
Less: Fuel Cost Recovered through Intersystem Sales	17,138,120	11,668,616	17,250,954	19,765,711	24,872,554	21,780,045	5,167,000	5,167,000		
Fuel Cost	63,989,882	56,074,144	52,568,079	66,180,066	51,501,541	52,425,557	56,766,000	73,103,000		
Total System KWH Sales Excluding Intersystem Sales (000's)	5,973,700	5,693,145	6,245,858	6,422,578	6,558,869	5,905,214	5,661,345	5,724,661		
\$/KWH Sales	0.010712	0.009849	0.008416	0.010304	0.007852	0.008878	0.010027	0.012770		
Less: Base Sales (\$/KWH)	0.009500	0.009500	0.009500	0.009500	0.009500	0.009500	0.009500	0.009500		
Fuel Adjustment Per KWH	0.001212	0.000349	(0.001084)	0.000804	(0.001648)	(0.000622)	0.000527	0.003270		
S.C. KWH Sales (000's)	1,692,041	1,637,187	1,733,465	1,772,066	1,750,788	1,578,394	1,652,793	1,680,283		
(Over)/Under Recovery	(4,172,246) (2)	571,378	(1,879,076)	1,424,741	(2,885,299)	(981,761)	871,022	5,494,525		
Cumulative (Over)/Under Recovery - 9/02 (p.1 of 4)	9,088,943									
Cumulative (Over)/Under Recovery this Period	4,916,697	5,488,075	3,608,999	5,033,740	2,148,441	1,166,680	2,037,702	7,532,227		

(Explanation for Notes (1) & (2) are on Pages 3 of 4 and 4 of 4.)

Duke Power Company  
S.C. Retail Comparison of Fuel Revenues & Expenses  
APRIL 2002 – MAY 2003

- (1) For the review period, April 2002 through March 2003, Staff's Purchase and Interchange Power Costs reflects two types of Staff treatment of certain purchases. These two types concern the treatment of fuel costs components in purchase power transactions. In a continuing effort to identify the fuel portion of Purchased Power for recovery through the Fuel Clause, in its first treatment, Staff has identified the fuel component contained on various Company purchase invoices. Staff's identifiable fuel cost components total \$19,065,134. For cost recovery purposes, the Company's total fuel expenses in its purchases are netted against the fuel associated with its off-system sales. The net effect is that what remains in purchased power fuel is the "native load" portion associated with purchases. Therefore, this \$19,065,134 would be less on a "native load" basis. It should be noted that Duke Power Company has already implemented the use of the identifiable fuel component per the Company's testimony in Docket No. 2003-3-E.

In Staff's second treatment, for power marketers where the fuel component of purchases cannot be identified, Staff has utilized the lower of total transaction costs or the "avoided fuel cost" proxy in determining amounts to be recovered. Staff has attempted to identify the fuel portion of avoided costs, once again, to continue in the effort to identify the fuel portion of purchased power costs.

For identifiable fuel costs, Staff notes that since the Company already included the identifiable fuel costs components in the fuel clause computations, Staff did not have to make an adjustment to include them. For non-identifiable fuel costs, Staff adjusted the Company's purchase power figures by \$197,140.

(2) Staff's October 2002 deferred fuel amount of (\$4,172,246) consists of two amounts: (a) The under-recovery deferred fuel entry for the month of October 2002 which totals \$2,050,754; and (b) a Company adjustment to the cumulative balance of the deferred account, on a S.C. jurisdictional basis, which totals (\$6,223,000) before a gross receipts tax factor is applied (with the tax factor the amount totals (\$6,250,000) ), for a settlement agreement, which reduces the under-recovery of fuel costs, as a result of an independent accounting review by Grant Thornton LLP.

The Company's cumulative under-recovery balance, on a S.C. jurisdictional basis, as of actual March 2003, per its testimony in Docket No. 2003-3-E totals \$1,104,000. Staff's cumulative under-recovery balance, on a S.C. jurisdictional basis, as of actual March 2003 totals \$1,166,680. The cumulative under-recovery balance difference, on a S.C. jurisdictional basis, between the Staff and the Company as of actual March 2003 is \$62,680. The Company's cumulative under-recovery balance, on a S.C. jurisdictional basis, as of estimated May 2003, per its testimony in Docket No. 2003-3-E totals \$7,470,000. Staff's cumulative under-recovery balance, on a S.C. jurisdictional basis, as of estimated May 2003 totals \$7,532,227. The cumulative under-recovery balance difference, on a S.C. jurisdictional basis, between the Staff and the Company as of estimated May 2003 is \$62,227.

**(Revised Pages 5 & 6 – Audit Staff Report)**

the appropriate premium or penalty on the coal, and the results are forwarded to the Company's Accounting Section, which in turn, adds a premium or assesses a penalty to the total amount due to the coal vendor.

The Fuel Purchasing Department closely monitors the quality of coal shipped by the various producers. If a certain producer renders poor performance, the purchasing agent records it and considers this when analyzing any future offers from the supplier.

As mentioned previously, Staff examined spot coal offers received for the months of December 2002 and January 2003. Staff obtained the Company's Evaluation of Spot Bids computer runs for the aforementioned months. The Evaluation of Spot Bids run is listed alphabetically by plant, with each plant's spot coal offers ranked by cost per MBTU. Also included on the Evaluation of Spot Bids run is the name of the coal company, the name of the producer, number of tons offered, coal specifications, the number of tons purchased, the plant to which the coal was shipped, or a reason for rejecting the offer.

During December 2002, 20 offers were submitted (per offer sheets) and Duke accepted 21 orders (several plant orders per offer sheet). During January 2003, 29 offers were submitted (per offer sheets) and Duke accepted 10 orders.

**RECOMPUTATION OF TRUE-UP FOR (OVER) UNDER-RECOVERED FUEL COSTS**

Staff analyzed the revised cumulative under-recovery of fuel costs that the Company had incurred for the period April 1, 2002 through March 31, 2003 totaling **\$1,121,094**. Staff added projected under-recovery of \$871,022 for the month of April 2003 and the projected under-recovery of \$5,494,525 for May 2003 to arrive at a revised cumulative under-recovery of

**\$7,486,641.** The Company's cumulative under-recovery as of March 2003 and cumulative under-recovery as of May 2003 differs from Staff's. Staff's Purchased Power figures for most of the review period differ from the Company's figures. The Company's and the Staff's Purchased Power figures are the same for December 2002, when compared on a rounded basis. Staff's figures, per Staff's report, reflect calculation adjustments made to Purchased Power Costs for the aforementioned months, based on Staff's review of Purchased Power system operations reports and invoices. Staff's revised Exhibit G, S.C. Retail Comparison of Fuel Revenues and Expenses, which consist of four pages, provide details of Staff's revised cumulative under-recovery balance.

As stated in Duke Power Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission. Accordingly, the Commission should consider the revised under-recovery of **\$7,486,641** along with the anticipated fuel costs for the period June 1, 2003 to May 31, 2004, for the purpose of determining the base cost of fuel in rates effective June 1, 2003.

This revised under-recovery figure of **\$7,486,641** was provided to the Commission's Utilities Department.

### **RESULTS OF EXAMINATION**

Based on the Audit Staff's examination of Duke Power Company's books and records, and the utilization of the fuel cost-recovery mechanism as directed by this Commission, the Audit Staff is of the opinion that the Company has complied with the directives (per the Fuel Adjustment Clause) of the Commission.

AUDIT EXHIBIT E  
(Revised)

DUKE POWER COMPANY  
COST OF FUEL  
APRIL 2002 - MARCH 2003

<u>MONTH</u>	<u>TOTAL COST OF FUEL BURNED</u>	<u>PURCHASED AND INTERCHANGE POWER FUEL COST</u>	<u>FUEL COST RECOVERED INTERSYSTEM SALES</u>	<u>TOTAL FUEL COST</u>
	\$	\$	\$	\$
Apr-02	65,338,391	3,380,048	(9,639,864)	59,078,575
May-02	66,123,670	1,915,627	(7,699,789)	60,339,508
Jun-02	79,886,249	6,553,067	(9,650,364)	76,788,952
Jul-02	88,938,495	7,345,653	(9,974,156)	86,309,992
Aug-02	84,218,951	10,178,401	(5,677,309)	88,720,043
Sep-02	79,602,388	3,629,670	(14,550,236)	68,681,822
Oct-02	78,052,874	3,075,128	(17,138,120)	63,989,882
Nov-02	67,194,150	544,960	(11,668,616)	56,070,494
Dec-02	68,240,192	1,578,841	(17,250,954)	52,568,079
Jan-03	82,335,556	3,610,221	(19,765,711)	66,180,066
Feb-03	73,665,309	2,706,286	(24,872,554)	51,499,041
Mar-03	73,485,395	664,272	(21,780,045)	52,369,622
Total	907,081,620	45,182,174	(169,667,718)	782,596,076



AUDIT EXHIBIT F  
(Revised)

DUKE POWER COMPANY  
FACTOR COMPUTATION  
APRIL 2002 - MARCH 2003

<u>MONTH</u>	<u>TOTAL FUEL</u> <u>COSTS</u>	<u>TOTAL SYSTEM</u> <u>SALES EXCLUDING</u>	<u>FUEL COST</u>	<u>BASE COST</u>	<u>FUEL</u>
		<u>INTERSYSTEM</u> <u>SALES</u>	<u>PER KWH</u> <u>SALES</u>	<u>PER KWH</u> <u>INCLUDED IN</u>	<u>ADJUSTMENTS</u> <u>PER KWH</u>
	\$	KWH	\$/KWH	\$/KWH	\$/KWH
Apr-02	59,078,575	5,670,816,000	0.010418	0.009500	0.000918
May-02	60,339,508	6,099,610,000	0.009892	0.009500	0.000392
Jun-02	76,788,952	6,432,593,000	0.011937	0.009500	0.002437
Jul-02	86,309,992	7,091,147,000	0.012172	0.009500	0.002672
Aug-02	88,720,043	7,776,761,000	0.011408	0.009500	0.001908
Sep-02	68,681,822	7,014,782,000	0.009791	0.009500	0.000291
Oct-02	63,989,882	5,973,700,000	0.010712	0.009500	0.001212
Nov-02	56,070,494	5,693,145,000	0.009849	0.009500	0.000349
Dec-02	52,568,079	6,245,858,000	0.008416	0.009500	(0.001084)
Jan-03	66,180,066	6,422,578,000	0.010304	0.009500	0.000804
Feb-03	51,499,041	6,558,869,000	0.007852	0.009500	(0.001648)
Mar-03	52,369,622	5,905,214,000	0.008868	0.009500	(0.000632)

Duke Power Company  
S.C. Retail Comparison of Fuel Revenues & Expenses  
April 2002 - May 2003

Description	ACTUAL				
	Apr-02	May-02	Jun-02	Jul-02	Sep-02
Fossil Fuel	52,736,006	51,175,360	64,997,061	73,431,563	69,426,331
Nuclear Fuel	12,602,385	14,948,310	14,889,188	15,506,932	14,792,620
Purchased Power (1)	3,380,048	1,915,627	6,553,067	7,345,653	10,178,401
Subtotal	68,718,439	68,039,297	86,439,316	96,284,148	94,397,352
Less: Fuel Cost Recovered through Intersystem Sales					
Fuel Cost	9,639,864	7,699,789	9,650,364	9,974,156	5,677,309
Total System KWH Sales Excluding Intersystem Sales (000's)	5,670,816	6,099,610	6,432,593	7,091,147	7,776,761
\$/KWH Sales	0.010418	0.009892	0.011937	0.012172	0.011408
Less: Base Sales (\$/KWH)	0.009500	0.009500	0.009500	0.009500	0.009500
Fuel Adjustment Per KWH	0.000918	0.000392	0.002437	0.002672	0.001908
S.C. KWH Sales (000's)	1,610,498	1,701,386	1,841,386	1,945,785	2,150,826
(Over)/Under Recovery	1,478,437	666,943	4,487,458	5,199,138	4,103,776
Cumulative (Over)/Under Recovery-March 2002	(7,446,417)				
Cumulative (Over)/Under Recovery this Period	(5,967,980)	(5,301,037)	(813,579)	4,385,559	8,489,335
					9,059,141

(Explanation for Note (1) is on Page 3 of 4.)

Duke Power Company  
S.C. Retail Comparison of Fuel Revenues & Expenses  
April 2002 - May 2003

Description	ACTUAL					ESTIMATED		
	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03
Fossil Fuel	64,869,336	54,278,128	53,104,939	67,305,428	59,530,940	58,449,051	44,012,000	61,703,000
Nuclear Fuel	13,183,538	12,916,022	15,135,253	15,030,128	14,134,369	15,036,344	14,416,000	13,062,000
Purchased Power (1)	3,075,128	544,960	1,578,841	3,610,221	2,706,286	664,272	3,505,000	3,505,000
Subtotal	81,128,002	67,739,110	69,819,033	85,945,777	76,371,595	74,149,667	61,933,000	78,270,000
Less: Fuel Cost Recovered through Intersystem Sales	17,138,120	11,668,616	17,250,954	19,765,711	24,872,554	21,780,045	5,167,000	5,167,000
Fuel Cost	63,989,882	56,070,494	52,568,079	66,180,066	51,499,041	52,369,622	56,766,000	73,103,000
Total System KWH Sales Excluding Intersystem Sales (000's)	5,973,700	5,693,145	6,245,858	6,422,578	6,558,869	5,905,214	5,661,345	5,724,661
\$/KWH Sales	0.010712	0.009849	0.008416	0.010304	0.007852	0.008868	0.010027	0.012770
Less: Base Sales (\$/KWH)	0.009500	0.009500	0.009500	0.009500	0.009500	0.009500	0.009500	0.009500
Fuel Adjustment Per KWH	0.001212	0.000349	(0.001084)	0.000804	(0.001648)	(0.000632)	0.000527	0.003270
S.C. KWH Sales (000's)	1,692,041	1,637,187	1,733,465	1,772,066	1,750,788	1,578,394	1,652,793	1,680,283
(Over)/Under Recovery	(4,172,246) (2)	571,378	(1,879,076)	1,424,741	(2,885,299)	(997,545)	871,022	5,494,525
Cumulative (Over)/Under Recovery - 9/02 (p.1 of 4)	9,059,141							
Cumulative (Over)/Under Recovery this Period	4,886,895	5,458,273	3,579,197	5,003,938	2,118,639	1,121,094	1,992,116	7,486,641

(Explanation for Notes (1) & (2) are on Pages 3 of 4 and 4 of 4.)

Duke Power Company

S.C. Retail Comparison of Fuel Revenues & Expenses

APRIL 2002 – MAY 2003

- (1) For the review period, April 2002 through March 2003, Staff's Purchase and Interchange Power Costs reflects two types of Staff treatment of certain purchases. These two types concern the treatment of fuel costs components in purchase power transactions. In a continuing effort to identify the fuel portion of Purchased Power for recovery through the Fuel Clause, in its first treatment, Staff has identified the fuel component contained on various Company purchase invoices. Staff's identifiable fuel cost components total **\$20,008,131**. For cost recovery purposes, the Company's total fuel expenses in its purchases are netted against the fuel associated with its off-system sales. The net effect is that what remains in purchased power fuel is the "native load" portion associated with purchases. Therefore, this **\$20,008,131** would be less on a "native load" basis. **The identifiable fuel cost components, on a "native load" basis totals \$8,819,365. Staff has allocated amounts for the identifiable fuel costs components by the ratio of native load MWH purchases to total MWH purchases.** It should be noted that Duke Power Company has already implemented the use of the identifiable fuel component per the Company's testimony in Docket No. 2003-3-E.

In Staff's second treatment, for power marketers where the fuel component of purchases cannot be identified, Staff has utilized the lower of total transaction costs or the "avoided fuel cost" proxy in determining amounts to be recovered. Staff has attempted to identify the fuel portion of avoided costs, once again, to continue in the effort to identify the fuel portion of purchased power costs.

It should be noted that Staff has revised its purchase power costs for several invoices that were originally considered to be non-identifiable for fuel cost component purposes. The invoices had purchases and sales information on them. After a closer examination, Staff found that the Company had listed purchase fuel components on the invoices where usually the sales fuel components were listed. Staff traced these purchase amounts to the Company's purchase reports. Therefore, Staff had to treat these invoices as identifiable fuel cost component invoices. The fuel costs of \$505,368 are included in Staff's revised identifiable fuel cost components total. On a native load basis, the amount totals \$59,432. For identifiable fuel costs, except for those fuel costs previously noted on a native load basis, Staff notes that since the Company already

included the identifiable fuel costs components in the fuel clause computations, Staff did not have to make an adjustment to include them. For non-identifiable fuel costs, Staff adjusted the Company's purchase power figures by **\$59,700**.

(2) Staff's October 2002 deferred fuel amount of (\$4,172,246) consists of two amounts:

(a) The under-recovery deferred fuel entry for the month of October 2002 which totals \$2,050,754; and (b) a Company adjustment to the cumulative balance of the deferred account, on a S.C. jurisdictional basis, which totals (\$6,223,000) before a gross receipts tax factor is applied (with the tax factor the amount totals (\$6,250,000) ), for a settlement agreement, which reduces the under-recovery of fuel costs, as a result of an independent accounting review by Grant Thornton LLP.

The Company's cumulative under-recovery balance, on a S.C. jurisdictional basis, as of actual March 2003, per its testimony in Docket No. 2003-3-E totals \$1,104,000. Staff's **revised** cumulative under-recovery balance, on a S.C. jurisdictional basis, as of actual March 2003 totals **\$1,121,094**. The **revised** cumulative under-recovery balance difference, on a S.C. jurisdictional basis, between the Staff and the Company as of actual March 2003 is **\$17,094**. The Company's cumulative under-recovery balance, on a S.C. jurisdictional basis, as of estimated May 2003, per its testimony in Docket No. 2003-3-E totals \$7,470,000. Staff's **revised** cumulative under-recovery balance, on a S.C. jurisdictional basis, as of estimated May 2003 totals **\$7,486,641**. The **revised** cumulative under-recovery balance difference, on a S.C. jurisdictional basis, between the Staff and the Company as of estimated May 2003 is **\$16,641**.